

[93]

1.3 Monetary Theory

The establishment of a monetary economy had a stimulating effect on society. It allowed the men of that time to attain an independence and freedom of body and spirit which they had not hitherto possessed. As a consequence, unusual blossoms of a great variety of colors bloomed within ancient China's intellectual culture. This was the period of greatest development of ancient Chinese thought. Such a phenomenon was not limited to China. The most flourishing period for ancient philosophy in Greece also occurred not long after the onset of the monetary economy. The decadence of the monetary economy during Europe's Medieval period was accompanied by an intellectual dark age. Only with the renewed development of a monetary economy in a few Italian cities did Europe's literary and artistic revival occur, and in precisely those cities.

An era's ideas cannot, however, transcend its social environment. In other words, mankind's philosophies are for the most part focused on a few pressing questions. During Spring-Autumn and Warring States times, the most pressing questions were those involving civil and military government and moral principles. The former asked how to attain unification of the land and peace, or the security of one's own state, or the realization of individual ambitions. The latter asked how to determine a new order for society. With the destruction of the well-field system, the traditional moral order had been abandoned as well. In so chaotic a society, the people whom one regularly encountered were no longer exclusively from one's own clan or one's own subordinates. In this sort of new society in which men were thrown together randomly, the nature of human relationships was a truly important matter.

Those times were not entirely lacking in economic problems. Every age has such problems. Up until then, however, the people who produced goods for a living had always been men whose social position was very low. Hence during ancient times in both China and other countries economic activities were always ranked below other activities. For most intellectuals, to even be willing to debate such questions was to compromise their status.

Although there were no explicit laws in pre-Han China denigrating merchants, their status had always been low. As Yang Hu said, "He who is rich will not be benevolent; he who is benevolent will not be rich."¹ The Greek, Plato, said substantially the same thing: Wealth in sufficiency and good fortune are

[94]

incompatible. A wealthy man cannot be a good man, because the acquisition and use of at least a portion of his wealth must not be proper.² It is clear what the view of wealth then was on the part of those who considered themselves upright gentlemen. Hence not only are there no comprehensive economic theories to be found in ancient narratives, there are not even very many references to economic questions.

The transition from barter to a monetary economy had just occurred, and this transition itself gave rise to debate.

The Agrarian School very much wished to return to a barter economy, and called for the ruler himself to cultivate the soil, just like the masses did. The Confucians³ supported the new trend, and advocated the division of labor and an exchange economy. Mencius (372-285 B.C.) said: "If one from his surplus may supply the deficiency of another, then husbandmen will have an abundance of grain, and women will have an excess of cloth." [Translation quoted from James Legge, *The Works of Mencius*, 2nd rev. ed., p. 269.] The clash between these two ideas is fully illustrated in the dialogue between Mencius and Chen Xiang:

Mencius said: "I suppose that Xu Zi⁴ sows grain and eats the produce. Is it not so?"

"It is so," was the answer.

"I suppose also he weaves cloth, and wears his own manufacture. Is it not so?"

¹Mencius, "Duke Wen of Teng," first part.

²*The Republic*, Book V, pp. 742-744. Jowett's *Plato*, Vol. V, pp.125-126.

³Confucius himself never expressed any opinions on the monetary economy or even on the division of labor and economic exchange.

⁴Xu Zi was Xu Xing. Mencius, "Duke Wen of Teng," first part: "One Xu Xing, who gave out that he acted according to the words of Shen Nong . . . he addressed the Duke Wen, saying, 'A man of a distant region, I have heard that you, Prince, are practicing a benevolent government, and I wish to receive a site for a house, and to become one of your people. The Duke Wen gave him a dwelling place. His disciples, amounting to several tens, all wore clothes of haircloth, and made sandals of hemp and wove mats for a living. . . Chen Xiang,

[103]

a disciple of Chen Liang, and his younger brother, Xin, with their plow handles and shares on their backs, came from Song to Teng . . . and abandoning entirely whatever he had learned, became his disciple." [Translation quoted from Legge, *op. cit.*, pp. 246-247.]

"No, Xu wears clothes of haircloth."

"Does he wear a cap?"

"He wears a cap."

"What kind of cap?"

"A plain cap."

"Is it woven by himself?"

"No, he gets it in exchange for grain."

"Why does Xu Zi not weave it himself?"

"That would injure his husbandry."

"Does Xu cook his food in boilers and earthenware pots, and does he plough with an iron share?"

"Yes."

"Does he make those articles himself?"

"No, he gets them in exchange for grain."

"Then getting those articles in exchange for grain is not oppressive to the potter and the founder, and the potter and the founder in their turn, in exchanging their various articles for grain, are not oppressive to the husbandman. How should such a thing be supposed? And, moreover, why does not Xu act the potter and the founder, supplying himself with the articles which he uses solely from his own establishment? Why does he go confusedly dealing and exchanging with the handicraftsmen? Why does he not spare himself so much trouble?"

"The business of the handicraftsman can by no means be carried on along with the business of husbandry."

"Then, is it the government of the kingdom which alone can be carried on along with the practice of husbandry? Great men have their proper business, and little men have their proper business. Moreover, in the case of any single individual, whatever articles he can require are ready to his hand, being produced by the various handicraftsmen. If he must first make them for his own use, this way of doing would keep all the people running about upon the roads." (*Mencius*, "Duke Wen of Teng, first part.") [Translation quoted from Legge, pp. 247-249.]

Plato also advocated the division of labor. He said that if the division of labor was put into effect, the quantity and quality of production could be increased.

Chen Xiang's sect did not actually oppose the division of labor or exchange, but Mencius wanted to push his opponent into this position so as to strengthen his own argument. From another section of this dialogue it is evident that Mencius advocated economic liberalism and opposed controls and management of the economy.

[Chen Xiang said] "If Xu's doctrines were followed, then there would not be two prices in the market, nor any deceit in the kingdom. If a boy of five cubits were sent to the market, no one would impose on him; linen and silk of the same length would be of the same price. So it would be with bundles of hemp and silk, being of the same weight; with the different kinds of grain, being the same in quantity;

[95]

and with shoes which were of the same size."

Mencius replied, "It is the nature of things to be of unequal quality. Some are twice, some five times, some ten times, some a hundred times, some a thousand times, some ten thousand times as valuable as others. If you reduce them all to the same standard, that must throw the kingdom into confusion." (*Mencius*, "Duke Wen of Teng," first part.) [Translation quoted from Legge, pp. 255-256.]

The Confucians' approval of the division of labor and exchange can also be seen in the words of Xun Qing [Xun Zi] (298-239 B.C.):

In the far north there are fast horses and howling dogs; China acquires and breeds them and puts them to work. In the far south there are feathers, tusks, hides, pure copper and cinnabar; China acquires them and uses them in its manufactures. In the far east there are plants with purple dye, coarse hemp, fish and salt; China acquires them for its food and clothing. In the far west there are skins and colored yaks' tails; China acquires them for its needs.

Thus people living in lake regions have plenty of lumber and those living in the mountains have plenty of fish. The farmers do not have to carve, chisel, to fire or forge, and yet they have all the tools and utensils they need; the artisans and merchants do not have to work the fields, and yet they have plenty of vegetables and grain. . . . Thus, wherever the sky stretches and the earth extends, there is nothing beautiful left unfound, nothing useful left unused. (*Xun Zi*, "The Regulations of a King") [Translation quoted from Burton Watson (tr.), *Basic Writings of Hsun Tzu* (NY: Columbia, 1963), pp. 43-44.]

Tradition says that in the 21st year of King Jing of Zhou (524 B.C.) small coins were replaced by large coins. Dan Qi commented that the abolition of small coins would deprive the people of their instrument for making purchases, leaving them no way to earn a living. Hence he opposed their abolition. Though it is hard to say whether this incident actually occurred, if it was not the creation of some later writer, Dan Qi's statement is the earliest one ever made on coinage. His remarks were supposed to be as follows:

In ancient times, when there were natural disasters or calamities, goods and coins would be measured out, with order kept between light and heavy so as to relieve the people. If the people suffered from light coins, then heavy coins would be made and circulated. Thereupon the "mother" would dominate the "child" in circulation, and people would acquire both of them. If the heavy ones were not adequate, then more light ones would be made and circulated, but without abolishing the heavy. Thereupon the "child" would dominate the "mother" in circulation, and great and

small would profit from this.

Now Your Majesty is abolishing the light and making the heavy coins. The people will lose their property. Can this be proper? (*Dialogues of the States*, "The Dialogues of Zhou," latter part, section 3.)

The meaning of this passage is quite definite: The size of the unit of money ought to be proportioned to the value of the commodity. Hence there ought to be both small and large monetary units. If people consider the coins too small, mint large coins, and circulate them through the same channels as the small. If people consider the coins too large, then mint small coins for circulation too, but do not abolish the large coins. This is the so-called child-mother relationship. Here child and mother merely refer to small and large coins, and the question of legal tender does not arise. This theory does, however, advance the concept of value by stating that large and small coins have different purchasing powers.

If we completely accept this old text, then what Dan Qi said would have been the same as the phrase "if the coin [*bi*] levies are light, then make the mother so as to circulate the child" in the *Lost Books of Zhou*. To translate the word *bi* in this phrase as "coin," is appropriate for Warring States times, but not for Spring-Autumn and earlier. Even in Warring States times, *bi* did not necessarily mean coin. It generally still meant

[96]

cloth. Nor is the meaning of "make the mother to circulate the child" clear. Literally it means to cast large coins and circulate small coins. How is this to be explained? Dan Qi's statement is less ambiguous. He says that large and small are to be circulated simultaneously. Hence if Dan Qi was not making the same point as the *Lost Books of Zhou*, then it must have been some later writer who created that statement on the basis of Dan Qi's words. Of course both could be later creations. In any event, there is no evidence that in the early years of Western Zhou the government minted both large and small coins. It is very hard to believe that monetary theory then was actually ahead of the actualities of money's circulation.

A number of people consider this child-mother hierarchy to refer to the relationship between a secondary and a primary money. They interpret the above passage as explicating a theory of secondary money. Whenever scholars of later generations discussed monetary questions, they always liked to drag in the child-mother hierarchy matter. Actually, during the two thousand years since Duke Mu of Dan, no truly secondary money has ever been circulated in China. All the forms of money had the

character of primary moneys. Even if one concedes that Duke Mu of Dan understood the theory of secondary money, posterity did not preserve that understanding, or if it did understand it, never did anything with it.

As a matter of fact this passage is likely a Warring States interpolation, since no such large coin of King Jing of Zhou has ever been confirmed. If there were metal coins in King Jing's time [544-519 B.C.], they could only have been hollow-socket spades, and there are no unusually large examples of these. There are some relatively large specimens considered by numismatists to be ancient spades, which are earlier than the hollow-socket spades, but some of these might not have been coins, and hollow-socket spades of that period might not have been minted by the royal house.

From late Spring-Autumn to early Warring States, the use of coins gradually broadened, and the concept of price gradually developed. It was then that people became concerned with the question of prices. It was at this time that China produced a strange fellow named Ji Ran or Ji Ni.⁵ He came up with a number of ideas for King Goujian of Yue, but unfortunately few of his doctrines have survived. On the basis of the succession of the Five Elements or Agencies, he said that "every six years there will be a good harvest, every six years a drought, and every twelve years a great famine."⁶ In this he resembles the business cycle theorists of contemporary capitalist nations.

Ji Ni's ideas might not have been derived entirely from *yinyang* and Five Agencies notions. They were probably also based on his own observations, and so they have a rough statistical significance. He also proposed a method for relieving an economic crisis by using monetary policy to regulate prices. He said:

If grain is sold for as little as twenty [cash per picul], agriculture will suffer; if sold for as much as ninety, the secondary occupations will suffer. If that occurs, then wealth will not issue, while if the farmers suffer, they will no

⁵We know very little about Ji Ran's life. We know only that his surname was Xin^a and his alternate names were Wenzhi^b and Yueren.^c He was a descendant of a deposed duke of Jin. Broad in learning, there was nothing through which he did not penetrate. He was especially good at calculations. Fan Li [a Spring-Autumn Yue statesman who helped conquer Wu. EHK] was his pupil, and so gained riches. The *Historical Records* calls him Ji Ran, but the *Yue Jue Shu* calls him Ji Ni. At the time of King Goujian, he was still a young man.

⁶*Historical Records*, 129, "Biographies of the Money-makers."

longer clear their fields. If the price is kept no higher than eighty and no lower than thirty, then both agriculture and the secondary occupations will be profitable. If grain is kept at a level price and goods are fairly distributed, there will be no shortages at the customs barriers and in the markets. This is the proper way to govern a country. (*Historical Records*,

[97]

129 "Biographies of the Moneymakers.")

He advocated maintenance of a suitable price, one neither excessively high nor excessively low. If prices got too far out of line, the method of averaging would be used to rectify them: "Dispose of expensive goods as though they were excrement; take up cheap goods as though they were pearls and jade. Wealth and money should flow like water." (*Ibid.*)

The *Yue Jue Shu*, in the chapter called "Ji Ni's Internal Classic," quotes Ji Ni's words to King Goujian:

"If Your Majesty is judicious, and uses my council, at the best you can become king, at the least you can become hegemon [*bawang*]. So what is there to lose?"

The King of Yue asked, "What would be required?"

Ji Ni replied, "When Jupiter for three years is dominated by the element Metal, then there will be good harvests; when for three years it is within the realm of Water, then there will be destruction; when for three years it is in the realm of Wood, then there will be famine; and when for three years it is in the realm of Fire, then there will be drought.

"Hence one should disperse what has temporarily been accumulated, and buy for storage what has been ordered. It should be decided that the multitude of goods will be issued after three years. . .

"Every six years all under Heaven will have a good harvest; every six years there will be a drought. Every twelve years there will be a famine. This will cause the people to disperse. . .

"That which can fundamentally restore normality is to entrust matters to the worthy and the able. Then, goods can come with a creaking of wheels from a thousand *li*. If this is not done, they will not even come from a hundred *li* away. That is what the ruler seeks, even if its price is ten-fold; that which he selects is without price."

During Warring States times, the doctrines of Bo Gui⁷ and Li Kui⁸ were very close to those of Ji Ran.

Bo Gui also based his discussion of good and bad harvests on *yinyang* and Five Agencies doctrines. He said the following: "When the reverse

marker of Jupiter is in the sign *mao*, the next harvest will be good, but the following year the crops will be much worse. When it reaches the sign *wu*, there will be a drought, but the next year will be fine. When it reaches the sign *you*, there will be good harvests, but the next year things will be bad. When it reaches the sign *zi*, there will be a great drought. The following year will be good. When Water is reached . . ." This runs parallel to Ji Ran's "When it is a Metal year, abundance; when Water, disaster; when Wood, famine; when Fire, drought." Bo Gui also had similar methods for responding to these situations: "What men throw away, I take up; what men take up, I give up."⁹

Li Kui's policies also called for maintenance of appropriate prices. He said: "If grain purchased for storage is too expensive, it hurts the people. If it is too cheap, it hurts agriculture. If the people are injured, they will disperse. If agriculture is injured, then the state will be impoverished. Hence the harm from excessive dearness and excessive cheapness is the same. Those versed in statecraft strive to keep the people from injury and agriculture encouraged still more." Hence he advocated averaging acquisitions of grain. When harvests were abundant, the government should buy up the surplus. In bad years this grain would be sold off to relieve shortages.

For these reasons, those versed in leveling the price of grain had to carefully watch the harvests. There are top, middling, and less good harvests. In a top harvest, the product was four times the average, with a surplus of four hundred piculs. A middling harvest was three times the average, with a surplus of three hundred piculs. In a lesser good harvest, the product was double the average, with a surplus of a hundred piculs.

In a minor famine, a hundred piculs were collected. During a middling famine, seventy piculs. During a great famine, thirty piculs. Hence, during a best harvest, the government purchased three-fourths of the crop, leaving one-fourth for the people. During a middling good harvest, it purchased half the crop.

During a lesser good harvest, it bought up one-fourth. This allowed a sufficiency for the people. When the price had reached its average level, government purchases ceased. During a minor famine, the government issued what had been collected in a middling good year. During a middling famine, it issued what had been collected during a middling good harvest. During a great famine, it issued what had been collected during a top harvest.

[98]

Hence, though there occurred famines, floods, and droughts, grain was not expensive, and the people did not

⁷A man of Zhou, he was born during the generation of Marquis Wen of Wei.

⁸Li Kui was the prime minister of Marquis Wen of Wei.

⁹*Historical Records*, "Biographies of the Moneymakers."

disperse because of the policy of collecting when there was a surplus to make up for when there was an insufficiency." (*Han History*, 24, "Treatise on Food and Money.") [Translation of this and the preceding quotation adopted from Nancy Lee Swann (tr.), *Food and Money in Ancient China* (Princeton University Press, 1950), pp. 139-140, 142-144.]

The work with the greatest relevance to monetary theory is the *Guan Zi*.¹⁰ This book is for the most part a Warring States era product. Its author had a great many penetrating views on the problems of a monetary economy.

However, the fiscal policies he advocated were based on the perspective of the ruling class. He did not advocate reduction of taxes. He wrote: "There are five things which determine if a state will be wealthy or impoverished, and light excises and low land taxes are not even worth considering." This is the opposite of Lao Zi's view. Lao Zi said: "When the people starve, it is because their rulers are consuming too much in taxes. That is why there is famine." The contents of the *Guan Zi* are somewhat eclectic, and it does not seem to have come from the hand of a single author. Many passages are very obscure, and are susceptible to dubious interpretations.

The author or authors of the *Guan Zi* had several things to say about monetary studies. The first concerns the origins of money:

The rulers cast coins to establish money. ("Husbanding the State.")

The Former Kings . . . used pearls and jade as the superior money, gold as their medial money, and knives and spades as their inferior money. (*Ibid.*)

This ascribes money's origins to the subjective intentions of the monarchs, and so belongs to the nominalistic interpretation of money's origins.

The second set of statements concerns money's function:

Knife coins are the channels and ditches. ("Calculations Regarding Earth.")

Gold, knives and spades are commodities/moneys circulated among the people. ("Light and Heavy," Part A.)

Gold is used as a measure. ("Establishing Government.")

These refer to money's two most important functions, its use as a medium of circulation, and as a measure of value. The other functions are directly or

indirectly implied by these. It must, however, be mentioned that the ancients lacked a clear set of scientific terms, and that their ways of thought were not the same as those now in general use. When we translate ancient terminology into modern vernacular language it is hard to avoid including some conjectural elements. For example, the two words used above, "ditches and channels," literally mean just that.

The *Guan Zi*'s authors probably also intended that literal meaning, but also extended the phrase metaphorically to mean the channels of commerce. They did not literally mean that the knife coins themselves were channels for money's circulation. Because knife coins had their own channels of circulation, they themselves could not be those [99]

channels of circulation. And so, translated into current jargon, we can only say: knife coins were an instrument for circulation.

As for the phrase "gold is used as a measure," some say this does not point to its use as a measure of value. But whether the object of measurement is some individual commodity, the whole of society's commodities, or what is consumed, it is still a question of quantity, a question of how much. Is it a matter of how much of what? That is, how many feet or inches? How many catties or ounces? How many individual items? Evidently not, because these are all incommensurable. They cannot be compared.

If that is the case, then value must be the object of this measure. It is a matter of how much value there is. Unfortunately, the concept of value was a hazy one for the scholars of antiquity. They made no distinction between kinds of value, i.e. value in exchange, value in use, or value in the sense of price. Of course they went still less deeply into the matter of the basis or source of value, since there was no one in ancient times who specialized in the study of value or even in economics. Even modern capitalist class economists or monetary theorists often blur these several aspects of the concept of value together.

And yet, it cannot be said that the *Guan Zi*'s authors were not discussing the question of value. After all, the term value was first used by them. The content of the term is capable of development. It is constantly being corrected to make it ever more clear. Otherwise we would have to keep creating new terms, if we were not able to contradict past uses of the term.

The third aspect of monetary theory with which the *Guan Zi* concerns itself is money valuation. The authors of the *Guan Zi* were the first to discuss the relation between the value of money and the value of commodities. They wrote: "If coins are heavy, then

¹⁰There are many editions of the *Guan Zi*, with many discrepancies between them. I am here using the Song woodblock edition.

the myriad of goods will be light. If coins are light, then the myriad of goods will be heavy."¹¹ They also wrote: "Therefore, if grain is heavy, then gold is light; if gold is heavy, then grain is light. The two do not balance."¹² Elsewhere the *Guan Zi* adds: "If grain is heavy, then the myriad of goods are light; if grain is light, the myriad of goods are heavy. The two do not balance."¹³ What is being discussed here is the relationship of the values of various commodities. We should not take this to mean that grain served as money then, because the book goes on to discuss the price of "heavy" grain.

This book is also the creator of the quantity theory of money. In the chapter "Husbanding the State" there is the statement "If goods are many, they will be cheap; if scarce, they will be expensive; if dispersed, they will be light; if concentrated, they will be heavy." Though money is not explicitly mentioned here, it is obviously meant to be included.

The nearly contemporary Greek, Xenophon (435-354 B.C.), denied this point. He said that while gold could be cheapened by an increase in its quantity, that could not be the case for silver. The Greeks at that time used silver as money. Gold was merely a commodity. He supposed that no matter how much the supply of silver increased, people would still demand it, and so it could not fall in price. This is to deny the commodity nature of money, and to view it as an unchanging

[100]

thing.

Aristotle (384-322 B.C.) recognized that money was also a commodity, and so its value, like other commodities, could change, but he believed that such changes in value would be less for money. The *Guan Zi* seems to have made no distinction between

the value of money and the value of commodities in general, supposing that both had their value determined by their quantity. Hence the *Guan Zi*'s quantity theory of value was not merely a quantity theory of money's value, but a quantity theory of the value of all goods. It states:

That which the people have in surplus, they treat as light. Therefore the ruler will gather it in because it is light. That which the people do not have enough of, they will treat as heavy. Therefore the ruler will disperse it because it is heavy. ("Husbanding the State.")

This goes beyond quantity theory to approach modern marginal utility theory. The author also thought that by means of increases and decreases in the quantity of money, the prices of goods could be kept level:

The ruler, knowing the truth, hence sees that the state makes up for deficiencies and manages its objects of value. When grain is cheap, money will be conferred to provide food. When cloth is cheap, money will be conferred to provide clothing. He will observe the lightness and heaviness of things, and manage them so as to confer them, and hence expensiveness and cheapness can be regulated. ("Husbanding the State.")

And yet the *Guan Zi* on the one hand says money is not really useful, and at the same time grants to it a special destiny, a political destiny, to be used to store up valuable goods, manage human affairs, and pacify the world:

If you grasp three coins, there is nothing there to warm you. If you eat them, there is nothing there to nourish you. The Former Kings used it to store up goods, to manage men, and to pacify the world. That which is used to order things is called a measure. A measure fixes height and subordination, so that things are not shifting. ("Husbanding the State.") [Translation adopted from Louis Maverick (ed.), *Economic Dialogues in Ancient China: Selections From the Kuan Tzu* (Carbondale, 1954), p. 122.]

His method was to increase the quantity of money in circulation when prices were too low.

He also considered the speed of circulation of commodities, i.e. the volume of exchange, to be important:

If the myriad of goods can flow unobstructed, they will be put in motion. If they are put in motion, then they will be cheap. ("Light and Heavy, A.")

If goods are stored, they will be heavy; if issued, then they will be light; if dispersed, they will be numerous. ("Investigations and Considerations.") [Cf. Maverick, p.

¹¹Cf. *Guan Zi*, "Enumeration of Mountains," 76. This is close to what Adam Smith wrote: "The prices of goods rise in accord with the fall in the value of silver. The degree of their rise matches the degree of fall in the value of silver." Adam Smith, *The Wealth of Nations*. [This appears to be a paraphrase of Smith's remarks on silver on p. 196 of the Methuen, University Paperback edition, edited by Edwin Cannan, 1950 edition. The terms "light and heavy" [*qingzhong*] originally referred to the weights of coins, but by this time the two words had been metaphorically extended to mean something roughly equivalent to "supply and demand." To say that "grain is heavy" meant that demand for it was greater, i.e. "heavier," than supply. To say that "grain is light" meant that demand was less, i.e. "lighter" than supply. Cf. Nancy Lee Swann (tr. & ed.) *Food and Money in Ancient China* (Princeton, 1950), p. 222n367. EHK]

¹²Cf. *Guan Zi*, "Light and Heavy, A."

¹³Cf. *Guan Zi*, "Light and Heavy, A," no. 80.

155.]

Though his goods or myriad of goods are set in contrast with money, it is very clear that he believed that both observed the same rule. If this assumption is so, then he already understood what the effect was of change in the velocity of circulation of money.

The authors of the *Guan Zi* were born in an age of warfare and disorder, with each state taking the increase of its own wealth and the strength of its own army as its goals. Hence their theories aimed at a wealthy state and a strong army. The European mercantilists had the same goal, but their

[101]

version of it required amassing large amounts of money, whereas the *Guan Zi*'s wealthy state required amassing real goods and wealth. Their aim was to make sure that the people within a state enjoyed low prices so as to raise their standard of living. So they did not consider money as wealth: "If in season, goods are not available, then no matter how much gold and jade there is, this must be said to be an impoverished state."¹⁴ This is in contradiction to the doctrines of the European mercantilists.

The book's method for increasing the quantity of goods was, in addition to increasing production, to raise purchase prices so as to compete for foreign goods.¹⁵

Now, grain is heavy in our state, and light in the world at large. Then the other lords' goods will spontaneously leak out like water from a spring flowing downhill. Hence if goods are heavy, they will come; if light, they will go. ("Investigations and Considerations.") [Cf. Maverick, pp. 154-155.]

If the other lords' grain is priced at ten, and if we price our grain at twenty, then their grain will flow to our state. ("Enumeration of the Mountains.")

If a *fu* of grain is selling for a hundred in Teng or Lu, then we make our price for a *fu* of grain a thousand, and the grain of Teng and Lu will flow through the four channels to

¹⁴Cf. *Guan Zi*, "The Eight Observations."

¹⁵The authors of the *Guan Zi* wanted both to keep domestic prices low and raise prices to attract foreign goods, which seems to be contradictory. We can only explain this by assuming they would carry out a two-level price policy, which would keep domestic and foreign trade prices separate. [Logically, this would require manipulation of foreign exchange rates, and requiring all importers to purchase foreign exchange from the government or its authorized agents, which is what modern governments do. The ancient Chinese coins from one state which bore denominations in the monetary unit of some other state could have embodied attempts at such a policy. EHK]

us as though into a deep ravine. ("Light and Heavy, B.") [Cf. Maverick, p. 186.]

Judging from the doctrines contained in the *Guan Zi*, its authors would not only seem to have considered money a passive instrument for circulation, but to have seen it as a positive instrument for making purchases, and to have taken advantage of this positive character. Superficially, each purchase amounted to a single flow of money, because a sale was taking place in addition to a purchase. In economic exchange, however, the purchasers generally take the initiative, and can use this to bring into play their strength as purchasers: The decision to buy and how much is bought can affect the amount produced or its price.

The seller does not have that much strength. As the producer of a commodity, he has no choice but to sell it, but he cannot peddle it from door to door. [This point makes sense because normally in an exchange economy, producers produce far more of a specialized good than they themselves can consume. EHK] If the purchasers will not buy it, then even if he drops the price, he might not be able to sell it. Unlike money, commodities cannot be preserved indefinitely at a profit. The authors of the *Guan Zi* may not have fully understood all this, but at least they saw how to employ pricing policy to obtain the things they wanted to obtain.

The *Mo Zi* also discusses monetary problems. To begin with, it discusses the relationship between money and commodities:

In using knife coins to buy grain for storage, the minister acts as a merchant. When knives are light, then buying for storage will not be expensive. If knives are heavy, then buying for storage will not be easy.¹⁶

At first sight, this statement is very obscure. Some revise it to read: "If knives are light, then buying for storage must be expensive; if knives are heavy, then buying for storage is not easy." That would make it almost identical to the argument in the *Guan Zi*, but such a revision is not appropriate, because both parts of the "Exposition of the Canon" chapter of the *Mo Zi*

[102]

reflect the tone of the Logician School of the late Warring States Era, and the emendation merely repeats the *Guan Zi*, [which would not have been very interesting for these writers].

The book's original intention was perhaps merely to state that if coins have low value, that does not

¹⁶*Mo Zi*, 10, "Exposition of the Canon," latter part.

mean that the price of grain is really high, and that if the value of coins is high, then even if the price of food is low, we can not say it is really cheap. Possibly this point was being made in reply to the *Guan Zi*. What was being discussed was still the relationship between commodities and money.

It goes on to say:

If the king's knife coins do not change, there will still be changes in the grain purchased for storage. The harvest changes the amount purchased for storage, and so the harvest changes the knife coins.¹⁷

The first half of this sentence seems to adopt a nominalistic viewpoint. It assumes that the state's money does not change, and that what changes is the price of food. And yet previously it states that both knife coins and purchase for storage can be either light or heavy, while here it is stated that the knives do not change. On the surface there is a contradiction between the two. Probably it is merely saying that even if the value of money does not change [through a change in its quantity], the price of food can change [through a change in its quantity], and then influence money's purchasing power.

It states further:

If the merchant's price is suitable, then he will be repaid. His satisfaction is in getting rid of all of it.

To get rid of all of it, is to get rid of that for which he has not been recompensed. If he gets rid of that for which he has not been recompensed, then he has been recompensed, and this amounts to selling it.

Whether it is suitable or not, depends on whether it is desired or not.¹⁸

This makes the value of the commodity absolutely determined by the desires of the purchaser, and denies that commodities have an objective independent value. This is similar to the statements in the *Guan Zi* that "when the people have a surplus of something, they treat it as light" and "when the people do not have enough of something, they treat it as heavy." It is also a forerunner of the later Austrian School's theory of subjective value.

These words in the *Guan Zi* probably reflect the point of view of Gongsun Long. Gongsun Long was a man from Zhao. He lived in Yan and Zhao at the time of the Yan army's attack on Qi. Yan, Zhao and Qi all used knife coins.

a 辛 b 文子 c 越人

¹⁷ *Mo Zi*, 10, "Exposition of the Canon," latter part.

¹⁸ *Op. cit.*